



## International Agricultural Trade

July 24, 2000

### *Weekly Market Report: Dairy, Livestock, & Poultry*

#### **Mercosur Countries are Beefing up Exports: Focus on Brazil**

##### **Summary**

Mercosur beef exports gained new momentum in 1999, boosted in part by the currency devaluation in Brazil. Brazilian beef export growth is expected to continue in 2000. In the coming years, Brazilian exporters are hoping to enter new markets for fresh, chilled, and frozen beef in Asia and North America, our most important markets. Their future success will depend on several factors, including the ability to eradicate foot-and-mouth disease (FMD) in the Brazilian cattle herd, the development of a strong export promotion plan, and structural changes in their beef industry to meet export demands.

##### **Low Price Image**

Brazilian beef exports have grown steadily since 1996, and rose sharply in 1999 due to the Real devaluation. Low price has been the key to success for Brazilian beef exports, reflecting low costs of production. The Brazilians are marketing an image of natural beef from cattle raised on pastures without growth hormones. The Brazilian cattle herd is quite diverse and reflects the country's vast and varied climatic regions. Great improvements continue to be made in cattle genetics, and today it takes an animal just over 3 years to reach maturity on pasture or pasture with supplementation. Most common among cattle breeds is the Nelore, an Indian crossbreed that is very heat tolerant but is not good for feedlot production. Feedlot production is growing, mostly in the south, but isn't expected to grow to a size of any significance in the near future.

Brazilian beef does not generally compete with U.S. product since U.S. high quality beef—known for its high degree of marbling and tenderness—is better suited for the hotel-restaurant sector. Thus, Brazilian beef only competes with lower quality U.S. no-roll beef in common foreign markets that accept fresh-chilled or frozen beef from Brazil despite Foot-and-Mouth Disease (FMD) in its cattle herd. These common markets include South American countries and the European Union. Nonetheless, the campaign to eradicate FMD from Brazil is expected to open new markets for their fresh-chilled and frozen beef which could lead to greater competition for U.S. exporters.

##### **FMD-Free Areas Expand, Creating New Opportunities**

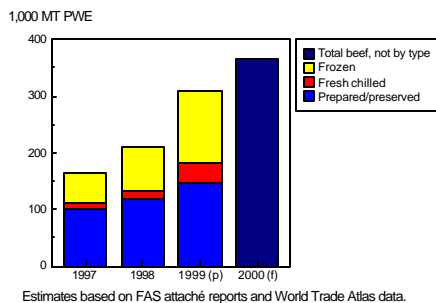
Brazil's FMD eradication campaign is moving from south to north, and their goal is to eradicate the disease throughout the country by 2004. On May 22, 2000, the Office International des Epizooties (OIE) recognized the so-called Center-West Circuit of Brazil as free of FMD with vaccination. This region covers approximately 20 percent of the Brazilian territory, and has an estimated herd size of 62 million (of the total 144 million head). The two southern states of Rio Grande do Sul and Santa Catarina were declared free of FMD with vaccination two years ago by the OIE. The recent OIE announcement

means that about 60 percent of the Brazilian cattle herd is now recognized by the OIE as being free of FMD with vaccination. The Brazilians are expecting the two southern states to be declared free of FMD without vaccination by December 2000.

As Brazil gains FMD-free status with vaccination, Brazilian beef exporters are primarily interested in targeting markets such as the United States, Asia, and Eastern Europe. Brazil is anxious to have the United States recognize its two southernmost states as FMD-free with vaccination, which would pave the way for exports of fresh, chilled, and frozen beef to the United States. A risk assessment prepared by APHIS's Veterinary Services has been cleared, and a proposed rule is moving forward through the clearance process.

Brazil has created APEX (Agency for the Promotion of Exports), a government entity which will work to open new export markets and promote Brazilian exports, including beef exports. The top priority of the new Executive Director of the Brazilian Beef Exporters Association (ABIEC) will be to obtain APEX's approval of ABIEC's export promotion plan. As Brazil looks to enter new markets, they will need to make structural adjustments to meet the demands of foreign buyers. Slaughter and processing export plants will need to meet foreign buyers' product needs and certification requirements. There are already some modernized slaughter/processing plants in Brazil that meet U.S. HACCP requirements. Some plants also meet traceability requirements for the European Union.

**Brazil's Fresh Chilled and Frozen Beef Exports Expanding Rapidly Despite FMD**



### **Strong Export Growth Expected in 2000**

The massive devaluation of the Real (40 percent) in January 1999 helped boost beef exports 47 percent to an estimated 550,000 tons (CWE) last year. Exports are expected to grow an exceptional 18 percent this year. U.S. beef imports from Brazil were up 5 percent from January to April 2000. These imports were primarily corned beef, canned beef, and other cooked product used by U.S. importers for preparing finished microwavable dishes (e.g., pizza and ethnic foods). In 1999, Brazilian exports grew sharply to all major markets, including the European Union (EU), the United States, and

Chile. The EU continues to be Brazil's largest market, taking over half of all beef exports while the United States and Chile represent 16 percent and 7 percent of exports, respectively.

While prepared and preserved beef continues to represent nearly half of Brazil's exports, the fastest growth has been in frozen and especially fresh-chilled beef. Fresh-chilled and frozen beef is shipped primarily to the EU (Netherlands, UK, and Germany) and Chile, as many other markets, including the United States, still do not accept nonprocessed beef from Brazil due to FMD. The trend toward increasing shipments of fresh, chilled, and frozen beef can be expected to continue as regions of Brazil are recognized as free of FMD with vaccination. While Brazil is exporting less than 10 percent of beef production today, it has the potential to expand substantially.

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